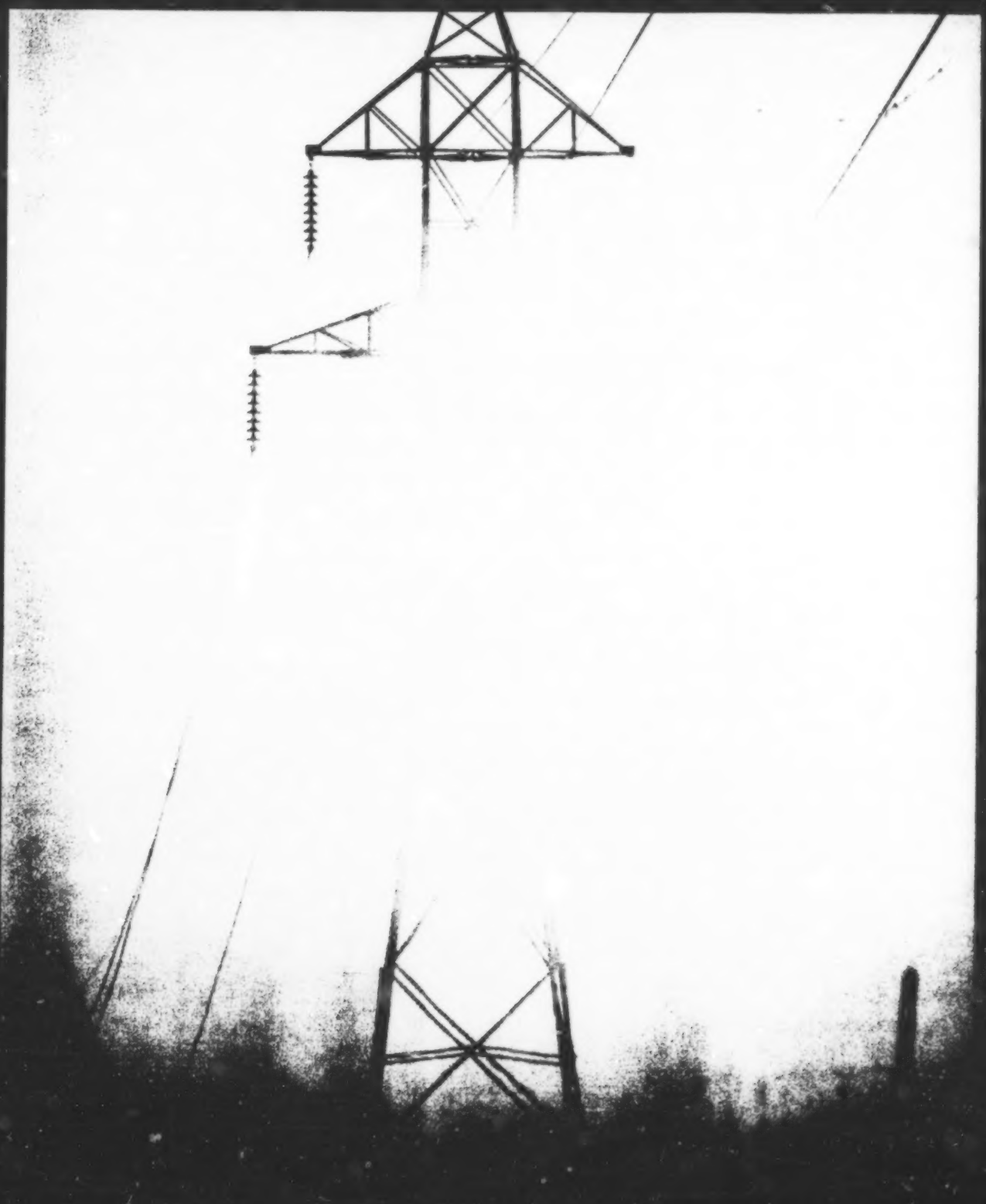
Maritime Electric Company, Limited

Annual Report 1986



About the Company

Maritime Electric Company, Limited is a Canadian investor-owned electric utility based in Prince Edward Island. Established in 1918, the Company owns and operates a fully integrated system providing for the generation, transmission and distribution of electricity throughout the Island. Maritime Electric operates generating plants in Charlottetown and Borden, and has an equity interest in NB Power's unit in Dalhousie, New Brunswick. Its 4000 km distribution system and 450 km transmission system are linked to the mainland power grid by two submarine cables between the Island and the Province of New Brunswick. The Company maintains its executive and head administrative offices in Charlottetown with branch offices in Sherbrooke and Montague. Maritime Electric Company, Limited's shares are traded publicly on the Montreal and Toronto stock exchanges.

Financial Highlights

	1986	1985
Operating revenue	$ 53,993,649	$ 64,118,783
Operating expenses	37,037,476	47,277,482
Net earnings	5,314,605	5,034,055
Earnings per common share[3]	1.41	1.31
Dividends declared per common share[3]	0.7166	0.6733
Capital expenditures (net)	8,846,461	4,585,110
Gross fixed assets	$115,751,009	$107,957,509
Sales (kWh)	538,600,000	515,060,418
Number of customers	46,200	45,100
Number of common shareholders	1,204	1,195

Common Share Quarterly Statistics[3]

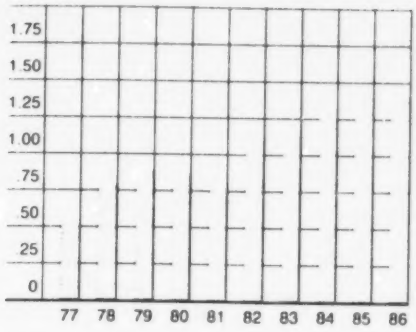
1986	First	Second	Third	Fourth
Earnings per share	$0.48	0.43	0.39	0.11
Dividends declared per share	$0.1733	0.1733	0.18	0.19
Share price[1]—high	$11⅛	13⅛	13	14
—low	$10¼	11½	11½	12⅛
Shares traded[2] (000's)	103.2	106.6	47.3	91.6

1985	First	Second	Third	Fourth
Earnings per share	$0.31	0.27	0.43	0.30
Dividends declared per share	$0.1667	0.1667	0.1667	0.1733
Share price[1]—high	$10¾	10⅞	10⅞	10⅞
—low	$9⅞	9⅞	9⅞	9⅞
Shares traded[2] (000's)	60.8	60.5	10.6	14.8

1. Prices quoted on The Toronto Stock Exchange
2. Combined volume of shares traded on The Toronto and Montreal Stock Exchanges
3. Numbers have been re-stated to reflect the June 5, 1986 three for one share split.

Message to Shareholders

Earnings Per Share
(in dollars)



1986 marked the first year of Maritime Electric's second century. The year was characterized by renewed optimism for the future growth of the Company and accordingly by an increased emphasis on planning. Planning is an essential tool for helping achieve two of the Company's main objectives: providing a high level of service to its customers and a reasonable rate of return to its shareholders. We are also committed to keeping expenditures at reasonable levels while at the same time maintaining the high quality of service provided to our customers.

In 1986, for the fifth straight year, earnings approached substantially the upper level authorized by the Prince Edward Island Public Utilities Commission (PUC). Earnings per share in 1986 were $1.41, up from $1.31 in 1985. This healthy financial performance stems from increased sales, effective cost controls and an improved budget system.

Gross revenue for 1986 amounted to $54 million, $10.1 million less than 1985, while operating expenses decreased $10.3 million to $37 million. Notwithstanding the fact that 23.5 million kWh more electricity was sold in 1986, the prices of fuel and purchased energy, which affect both revenue and expense, were well below 1985 levels and resulted in lower revenue and expense.

The Company's common stock sold above book value throughout 1986. At the end of 1986 our stock closed at $13 1/8 per share, a significant increase over the 1985 closing price of $10 5/8 per share.

Construction expenditures to upgrade and expand our transmission and distribution systems, and to strengthen systems related to customer service, will total about $38 million in the next five years. Net capital expenditures in 1986 amounted to $8.8 million and $11.6 million is budgeted for work planned in 1987. We have not had to finance expensive production facilities since 1981, and this has kept overall capital expenditures relatively low, however the next few years will see a resumption of more normal construction work which could add as much as $100 million to our 5 year capital expenditure budget, an increased requirement for investment to meet our customers' growing needs.

In 1986 the Government of Canada, as part of its regulatory reform strategy, asked that electricity export licensing procedures be reviewed with a view to streamlining and shortening the approval process significantly. National Energy Board hearings were subsequently held in Ottawa, Fredericton, and Vancouver. Representatives from your Company attended these hearings and appeared before the Board. We were particularly concerned over possible conclusions relating to the interpretation and implementation of the National Energy Board Act which might lead to changes which would adversely affect our customers.

In 1986, the Company applied for and received permission to reduce the level of rates by 3.75 percent. This reduction was made effective July 1, 1986.

During 1986, the Company applied for and received permission for a temporary amendment to the energy cost adjustment mechanism (fuel clause). The purpose of this amendment was to ensure that the savings being realized from lower fuel and purchased energy costs were passed on to our customers on as current a basis as practical.

On January 10, 1987, the Company filed an application before the PUC for approval of a number of proposals in respect of the Company's overall revenue requirement. Included in this application was a request for a reduction in the Company's rate of return on rate base to provide a reduced rate of return on common equity in the range of 14.25 percent to 14.75 percent (present range is 15 percent to 15.5 percent). Approval of this rate of return would mean no change in basic rates in 1987 and an average increase of 3.7 percent in 1988.

Maritime Electric is highly sensitive to its customers needs, and we are looking for ways to improve energy efficiency through the application of new technologies. The coal/water fuel demonstration being carried out at our Charlottetown Steam Plant using facilities originally designed to burn Bunker "C" oil is one of the areas being explored.

Load management continues to play an important part in our electric supply/demand planning.

Energy efficiency programmes, designed to help people get the most value for their energy dollar, will continue to be part of our marketing strategy.

On July 1, 1986 the Federal Provincial Rebate Program put in place in 1985 was modified. The 17 percent provincial rebate to residential customers was replaced with a rebate of approximately 6 percent in respect of Federal income tax paid by the Company and rebated to the Province under the Public Utilities Income Tax Transfer Act. This rebate applied to all customers including General Service and Industrial customers who, in addition, are still eligible for rebates averaging 17 percent under the interim Industrial Assistance Program.

One of the primary objectives of the Customer and Employee Share Purchase Plans is to increase the involvement of Prince Edward Island residents in the Company. Since the Plans' inception in October 1983 the number of Island shareholders has risen from 218 to 589, a 170 percent increase.

In November 1986, the Directors and Management decided to satisfy the need for shares issued under these purchase plans by the Company buying its shares through the Montreal and Toronto Stock Exchanges. This practice will continue as long as the debt/equity ratio remains at or near the current level.

On June 5, 1986, the common shares of the Company were subdivided on a three for one basis. This split was felt to be in the best interests of the Company, its shareholders and customers.

1986 was the 12th consecutive year of dividend increases for our common share owners. In November 1986, the Company raised the fourth quarter dividend from 18 to 19 cents per share.

The Company's success in 1986 could not have been achieved without the hard work and dedication of our employees. The directors extend their appreciation to the employees for their outstanding effort. We are confident that these qualities will continue to be displayed in the future.

This report together with the Report on Operations, Financial Report and Capital and Financial Statements for 1986 are submitted on behalf of the Board of Directors.

R.W. Smith
Chairman of the Board

J.H. Reynolds
President and Chief Executive Officer

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President and Chief Executive Officer

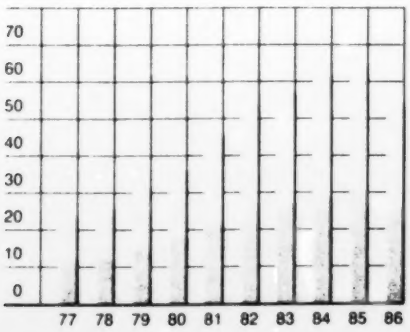
INTO THE SECOND CENTURY

In 1986, Prince Edward Island entered its second century of electrical living.

During the first hundred years, the province's electrical power consumers witnessed dramatic changes in the availability and variety of usage of what has become an essential commodity for personal and industrial growth. For almost seventy of those years, Maritime Electric Company, Limited has been the prime supplier of electrical energy to the people and businesses of Prince Edward Island.

Mid Island Farms' Manager, Rod Nicholson (right) of Albany, PEI, reviews service requirements with Ron Johnson and Paul Smith of Maritime Electric's Sherbrooke office.

Source of Revenue
(millions of dollars)



Today, Maritime Electric coordinates and controls a world class electrical energy system. This system has evolved through the efforts of the Island's electrical energy pioneers whose legacy at the end of this first century illuminates the Island from Tignish to East Point.

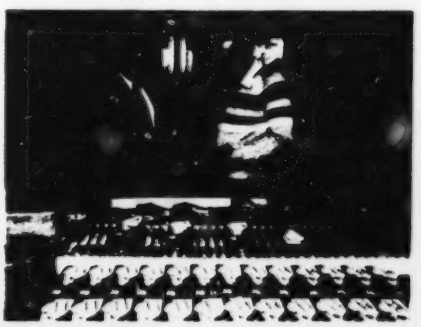
However, supplying electricity was only the beginning of Maritime Electric's challenge. It must continue to seek reliable and stable generating capacity at acceptable financial and environmental costs. The Company must continue to monitor advancements in technology and service, retain and prepare personnel to implement these coming advances, and it must ensure that the changes to come will complement and protect the special lifestyle now enjoyed by Island citizens.

Traditional methods of electrical generation and energy distribution are coming under increasing global inspection and challenge. Since change will play as dramatic a part in the second century as it did in our first hundred years, your company accepts as a future mandate that it work to ensure the right choices and decisions are made for Islanders' electrical needs.

Maritime Electric has acknowledged this challenge through a continuing process of advanced planning that regularly explores various options ranging from the upgrading of conventional generating techniques to the investigation of alternate energy sources which might utilize elements native to Prince Edward Island.

The Company continues to pursue new initiatives leading to conservation and efficiency improvements. The past year was marked by our participation in a pilot program that evaluated a coal/water solution as an optional fuel in our Charlottetown generating plant, an exciting concept that led to visits from interested international energy analysts and producers. These opportunities for information exchange between Maritime Electric personnel and international experts, in concert with our continued monitoring of energy sourcing and systems in other jurisdictions, are just part of the Company's plan to ensure that Island power consumers retain access to the "cutting edge" in energy transfer and technology.

In recent years, the Company has also moved to ensure that Prince Edward Island energy consumers are fairly treated under existing administrative structures related to national energy policies.



Commercial clients, such as Usen Fisheries' Carl Murphy in Souris, PEI, (right) rely on Maritime Electric representatives like Merrill Scott to help them keep pace with industry standards by staying in touch with their special needs.

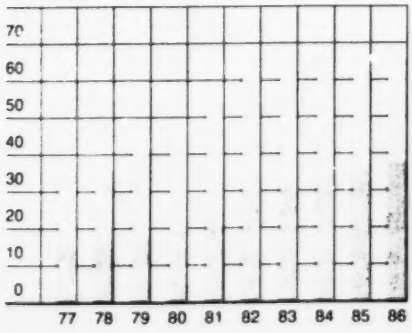
As the power utility for the province, Maritime Electric has adopted a proactive stance in representing the legitimate interests of Island power consumers with regard to the formulation of national energy planning. The reduction in consumer costs during 1986 is one indication of the impact of these representations.

Maritime Electric executive members continued their energetic representation of Island consumer interests during this past year, making appearances before the National Energy Board in Ottawa, Fredericton and Vancouver. These interventions have received broad media coverage over the past year due to the potential advantages they might offer to other power consumers across Canada. The Company believes these efforts to be essential to achieve the administrative and regulatory stability required to effectively plan for the technological and logistical challenges that will confront the industry in the years to come.

Maritime Electric believes that effective conservation is best achieved through education and innovation and both elements will play an important part in our future planning.

Prince Edward Island's electrical pioneers experienced interesting and exciting times during the province's first century of electrical living, and the second century promises even broader challenges and opportunities.

Year End Capitalization
(millions of dollars)



Coal and Water: A Power Solution

Sometimes the solutions to new energy demands can be found by combining the most common and traditional of substances.

This certainly appears to be the case with at least one new alternate energy idea explored by Maritime Electric Company, Limited during 1986. In an experimental process supervised by Maritime Electric engineers and their crews, an extensive study was conducted to test the use of coal as a less expensive and efficient replacement for oil.

The method mixed pulverized coal, certainly Atlantic Canada's most abundant and traditional fossil fuel, with water in a 70 percent-30 percent ratio solution, known as a fuel slurry. The mixture is stabilized with organic additives in an effort to create a low-viscosity, stable fuel.

Industry analysts are optimistic that the coal/water slurry could help to ease the region's and the utility's traditional dependence on oil as a prime fuel source for electrical energy generation.

Initiated under an agreement between Maritime Electric, the Federal Department of Energy, Mines and Resources, the Cape Breton Development Corporation (DEVCO), and New Brunswick Power, the year-long test project conducted at the Charlottetown Steam Plant particularly investigated the combustion characteristics of the coal/water fuel when burned in a boiler originally designed for oil.

Preparation for the Charlottetown experiment required major modification to the Company's Number 10 boiler, the construction of a fuel storage and handling system, as well as a "baghouse" to control any resulting emissions.

The Company's participation in a pilot program evaluating a coal/water slurry as a fuel alternative attracted interest from energy analysts around the globe.

Preparation for the Company's experimental review of a coal/water solution as an energy option required major plant modifications, including a "baghouse" to control resulting emissions.

The experimental fuel was prepared in Cape Breton by DEVCO using a formula developed by A. B. Carbogel of Sweden.

The technology under review was of international interest and attracted the attention of numerous energy analysts who visited the site during the past year, including visitors from Korea, Japan, Switzerland, Sweden, New Zealand, and the United States.

Maritime Electric's interest in the test results is rooted in a determination to encourage continuing research into alternative energy sources to assist its electrical generating capacity. Particularly important are sources that will develop and utilize resources available in the Maritime region. Although testing will continue into early 1987, early results offered a positive prospect and Company analysts are encouraged about the future for coal/water as a potential fuel for generating electricity. At the moment, however, reduced world oil prices and the need for further modification of the technology will delay any prospects for early implementation.

The search for new fuel solutions is just one of the ways Maritime Electric is actively pursuing improved energy options for Island consumers as they begin their second century of electrical living.

Preparing Today for Tomorrow's Promise

Planning for a better energy tomorrow requires the development of a strong organization today, with its present systems and technologies monitored and maintained at optimum levels.

Maritime Electric actively pursues a number of programmes designed to keep its existing generating and distribution systems at contemporary national standards.

For Island observers, one of the most obvious recent illustrations of this aggressive maintenance policy was the continuation in 1986 of the Company's pole replacement program. The venture represented the largest single expenditure in the Company's rural energy distribution budget, costing $1.6 million for the total of 3,300 poles that were replaced under the program in 1986.

Total net capital expenditures for 1986 amounted to $8.8 million, fully $4.2 million over 1985 levels. Of these total net capital expenditures, 47 percent were related directly to rural distribution projects.

During the year, the Company also continued work on expansion of its 138 kv transmission system. A second high voltage transmission line is being constructed from the Bedeque switching station, the termination point of the New Brunswick-Prince Edward Island submarine cable interconnection, to the Charlottetown West Royalty substation.

Maritime Electric also initiated system upgrades designed to further reduce power outages to customers in both eastern and western sections of the province. The Lorne Valley switching station is being upgraded with the installation of two 69 kv sulphur hexafloride (SF_6) circuit breakers, which will make the station capable of responding to automatic control directly from the Energy Control Centre in Charlottetown. This key addition, along with the installation of similar equipment at the Company's Wellington substation, will provide improved service and energy reliability to thousands of customers.

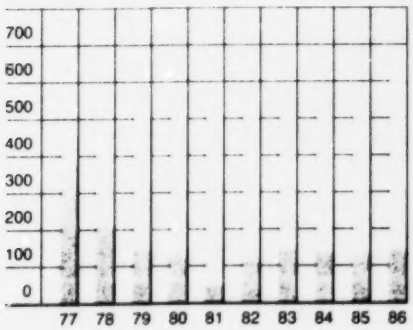
In an effort to further reduce outages due to storm related power interruptions, the Company also initiated plans for a coordinated crisis control centre to be located in the Charlottetown head office. Maritime Electric is determined to continue to improve its ability to respond quickly and effectively in times of power emergencies, with special emphasis being placed on coordinating communications among its emergency service personnel, and with the Island community at large through the media and designated corporate sources.

The Company is committed to continue its programme of equipment and supply improvements, particularly in light of the increasing demand for its services. In 1986, electricity usage on Prince Edward Island increased by 4.6 percent to a total of 538.6 million kilowatt hours. Sales were particularly high to the Company's 38,500 residential customer base, where demand rose by 5.6 percent. The Company's total customer base swelled by 1,100 new clients by 1986, pushing the overall total to 46,200 by year end. The continuing growth in sales and customers has also been reflected in our peak load figures, with demand in 1986 reaching a high of 112,400 kilowatts—an increase of more than 3 percent from the previous year.

What these numbers really tell us is that Maritime Electric must immediately respond to increased demand today by making sure that our present systems and personnel make the best use of contemporary industry concepts. When anticipated and appropriate innovations appear, Maritime Electric will incorporate them. In the meantime, we are constantly working to make the existing technology work even harder for all of us.

Crews from Maritime Electric, Island Tel, and Island Cablevision taking advantage of the joint pole usage concept typify the Island's tradition of cooperation.

Sources of Electricity
(millions of kilowatt hours)



Facing the Future Together

As Maritime Electric continues to plan for Prince Edward Island's future electrical generation and distribution needs, it does so with a firm guideline in mind—that all change is not necessarily progress.

Change for the sake of change has never been the Company's corporate style. There are intrinsic values associated with the Island way of life that have to be considered in the context of any future planning. The temptation to pursue scientific advancement must not automatically supercede personal and community concerns.

To keep in touch with its key publics, the Company plans to extend its present outreach programs, such as community and trade show participation, safety and science lectures in Island schools, public service announcements and advisories, and continuing support for various Island groups, educational institutions and enterprises.

The opportunities presented by these community and corporate activities have traditionally allowed Maritime Electric to stay in contact with the real concerns of its customers, employees, and investors. It has encouraged and produced an increasingly

frank and open environment that works toward the securing of mutual goals, a positive illustration of the successful dynamics inherent in the enterprise system.

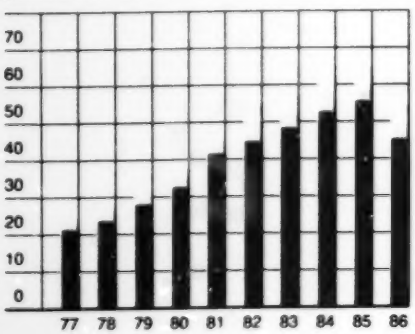
In 1986, the Company anticipated that the second century would require even more community contact and, accordingly, plans were initiated to further increase Maritime Electric's availability to interested publics.

The Company's specially designed Customer Share Purchase Plan will continue to allow Islanders the opportunity to participate in the continuing success of this enterprise.

Maritime Electric appreciates that in addressing the inevitable challenges of the electrical second century, it will have the support of increasing numbers of Island customers, new Island employees, and growing ranks of Island investors, thus encouraging the Company to face the future with a spirit of confidence and enthusiasm.

The Customer Share Purchase Plan provides an incentive for more and more of Maritime Electric's consumers to participate in an ownership role. Island investors like G. Arnold Wightman (left) of Montague, PEI, speaking with Wendell Brown of Maritime Electric.

Application of Revenue
(millions of dollars)



Contemporary Ideas for Traditional Tasks

Over 100 years ago, British economist and philosopher, John Stuart Mill doubted whether "all the mechanical inventions yet made have lightened the day's toil of any one human being".

A century later, Maritime Electric employees would be one group ready to disagree with Mill's observation, especially in the area of internal and external communication systems.

This is currently one area in which the Company is making considerable progress through the incorporation of new systems innovations into traditional office environments.

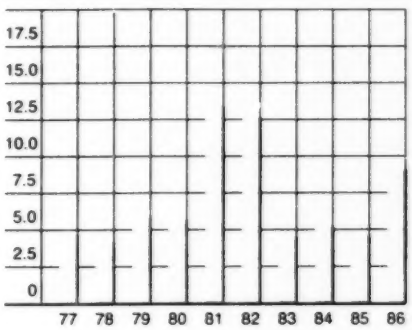
Maritime Electric has been introducing new management information systems, additional electronic data processing, and word processing facilities in an effort to streamline many administrative functions still required by standard office procedures.

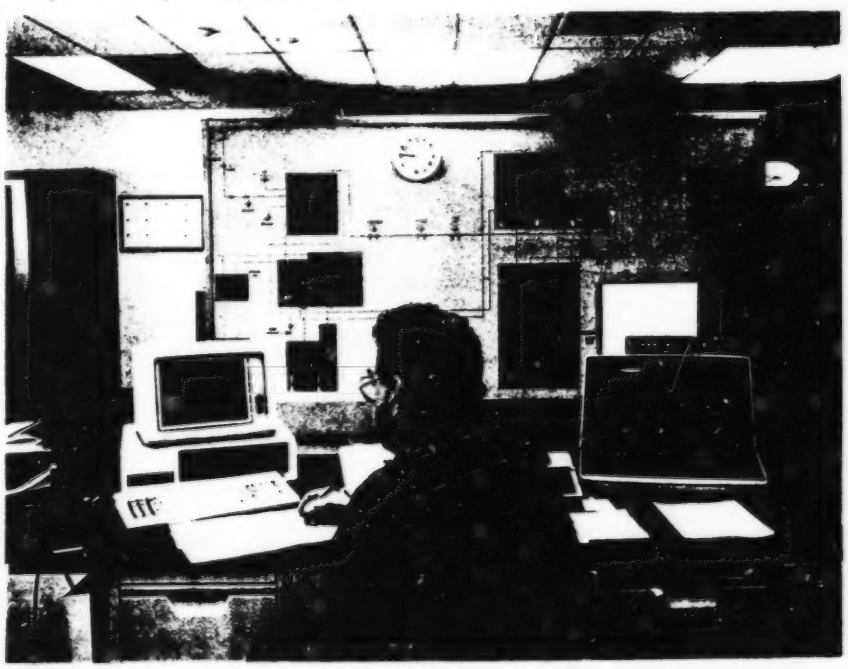
The introduction of automated financial reporting, sophisticated payroll systems, detailed financial forecasting, and the implementation of a transformer record system tied to customer enquiries and line loading are all administrative features that have benefited employees and customers alike over the past year.

Externally, the program to install a new computerized Supervisory Control and Data Acquisition System (SCADA) was continued by company personnel during 1986. The system will soon be fully operational for all the Company's remote control stations, allowing for more effective control of operational functions and information retrieval directly from the Company's Energy Control Centre.

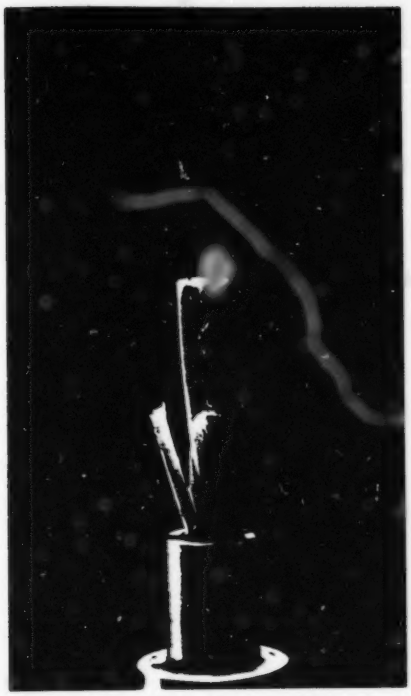
Incorporated into the SCADA system is the first of two fibre optic communications links also constructed by the Company over the past year. Fibre optic cables were chosen over existing microwave technology to form the backbone of Maritime Electric's communications system. The cables will be capable of transmitting voice

Capital Expenditures (Net)
(millions of dollars)





The implementation of a new computerized Supervisory Control and Data Acquisition System (SCADA) will allow for more effective systems control directly from the Company's Energy Control Centre.

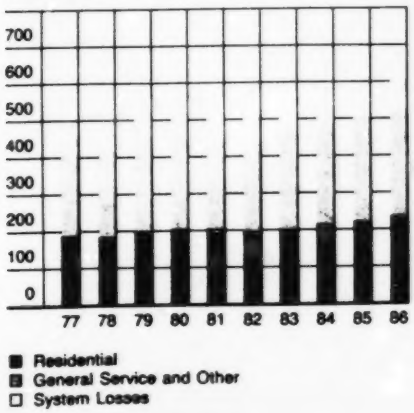


Fibre optics provide Maritime Electric with high-quality voice and control channels for its communications requirements, part of the Company's plan to incorporate the very latest technologies.

as well as control signals and the choice of fibre optic technology illustrates the Company's determination to move directly to the forefront of communications science when upgrading its present system. Maritime Electric is one of the first power utilities in Canada to utilize fibre optic technology in this manner.

Monitoring industry advances, encouraging the exchange of productive information, and the practical implementation of related technology are priorities that have encouraged Maritime Electric to place new ideas in traditional systems.

Distribution of Electricity
(millions of kilowatt hours)



People and Progress

One of Maritime Electric's key objectives upon entering the Island's second century of electrical living is to ensure that service will continue to be maintained and developed by competent, dedicated personnel.

The Company must accept today's need to select and train individuals eager to improve its record of progress, and prepare to adequately equip these employees to address the challenges that will inevitably arise over the coming decades.

During the past year, ample evidence was given that Maritime Electric is indeed responding to that challenge.

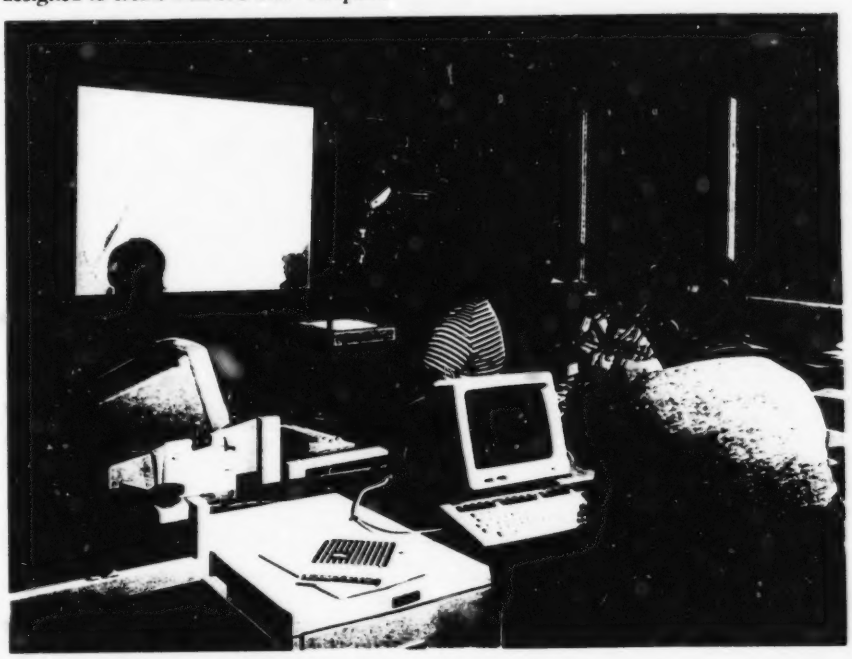
In-house training programmes were established for current employees wishing to learn or upgrade computer and office systems skills, and additional instruction continued where applicable in the key training areas of equipment utilization and product safety.

Today's employees, and most certainly tomorrow's, will continue to express new concerns, particularly in the area of occupational health. The Company responded to one of the major emerging concerns of 1986 when it implemented a company-wide Smoking Cessation Programme designed to create a smoke-free workplace for its personnel, phased in over a twelve month period.

Additional workplace concerns, such as equal pay for equal work, hiring policies that allow special provision for the physically and intellectually disadvantaged, the integration of university co-op education programs, the establishment of direct and responsive internal communications programs, and assistance in support of employee recreational, health, and fitness concerns have all been actively addressed by the Company.

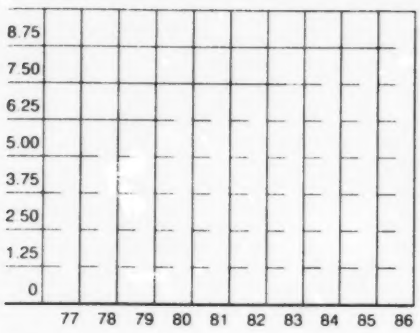
Maritime Electric knows full well that its people are a major asset, Islanders who know and care about their families and friends across the province. Given the tools, the training and a proper working environment, they can and will do the job to levels matching and even exceeding the proud record of their electrical pioneering forbears.

The Company is working to ensure that its present staff is capable of meeting the challenges of today, and to provide a progressive workplace where future generations of Islanders can continue this commitment by effectively meeting the issues of tomorrow.



Employee education and job enrichment programs are an important part of life at Maritime Electric, with courses varying from computer skills to on the job repair and maintenance training.

Equity Per Share
(in dollars)



Results of Operations

Net fixed assets increased to $77 million in 1986 from $72.1 million in 1985. The increase in this account is shown in the notes to the financial statements on page 15. Current assets increased slightly to $13.4 million as compared to $13.1 in 1985. The $2.3 million increase in shareholders' equity is due primarily to earnings retained in the business. Long-term debt at $17.7 million is $9.5 million lower than the 1985 total of $27.2 million. This reduction is offset in the current liabilities section which includes the two bond issues maturing in 1987. The deferred energy cost adjustment account increased from $1.6 million in 1985 to $5.7 million in 1986, reflecting the sudden drop in the price of fuel and purchased energy. The switch from deferred fuel expense on the balance sheet in 1984 to deferred fuel revenue in 1985 and 1986 created a tax payable of nearly $2 million in 1985 and tax recoverable of $1 million in 1986. It is anticipated that due to increasing fuel and purchased energy costs, 1987 will mark a return toward seeing the more traditional deferred fuel expense on the balance sheet.

In 1986 the authorized rate structure gave rise to billings which were $899 thousand in excess of its revenue requirement. In December 1986, the Company applied to the Public Utilities Commission (PUC) to have any earnings in excess of 15.5 percent on common equity refunded to customers in 1987. This was approved by the PUC prior to December 31, and is reflected on the balance sheet as 'cost savings refundable to customers' in the amount of $899 thousand.

Equity per share has doubled in the 10-year period 1977 to 1986, rising from $4.70 per share in 1977 to $9.45 per share in 1986. Over $8.00 per share of the $9.45 is made up of earnings retained and reinvested in the Company.

Operating revenue for 1986 amounted to nearly $54 million compared to $64.1 million in 1985. Sales of electricity increased from 515.1 million kWh in 1985 to 538.6 million kWh in 1986. Lower rates, due primarily to reduced fuel and purchased energy costs, accounted for the drop in operating revenue. 1986 operating expenses of $37 million were $10.3 million less than the $47.3 million incurred in 1985. This reduction was also attributable to the lower fuel and purchased energy costs. Operating income for each of the two years was $10.4 million.

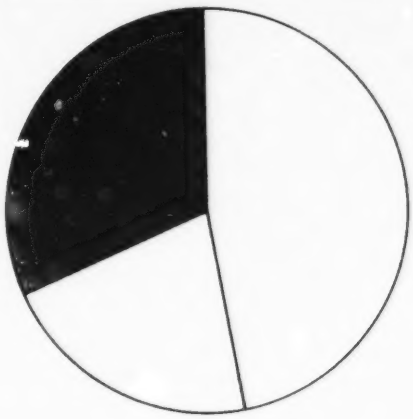
Interest revenue increased from $108 thousand in 1985 to $587 thousand in 1986.

Earnings applicable to common shares increased by 9.2 percent from $4.02 million in 1985 to $4.38 million in 1986. Earnings per common share increased from $1.31 in 1985 to $1.41 in 1986.

Cash generated from operations in 1986 amounted to $9.2 million compared to $12.3 million in 1985. This cash flow was sufficient to supply the 1986 funding requirement of 8.8 million for capital expenditures. At December 31, 1986 the Company had cash and term deposits of $5.60 million, up $960 thousand from $4.64 million in 1985. It is anticipated that most of this cash surplus will be utilized before the 18¼% 1987 Bond issue matures in the fall. This will necessitate an external financing requirement which at time of writing is anticipated to be in the form of a preferred share issue.

In spite of the fact that Maritime Electric has been in the position of being a lender of short-term funds for the past two years, the Company has maintained its bank line of credit of $6 million and will be negotiating to increase this amount substantially.

Revenue and Costs



- 47.2% Fuel and Purchased Energy
- 21.2% Other Operating and Maintenance Exp.
- 9.1% Income Tax
- 6.7% Depreciation
- 7.6% Net Interest and Preferred Dividends
- 4.1% Common Dividends
- 4.1% Reinvestment in the Company

Taxation

The P.E.I. provincial budget brought down in June 1986 included provision for increasing the provincial corporate tax rate from 10 to 15 percent in 1987. This tax increase will add over $500 thousand to the Company's revenue requirement and is the equivalent to a one percent increase in rates. To date Provincial income tax has not been refunded to customers like the Federal tax refunded under the Public Utilities Income Tax Transfer Act (PUITTA), and this cost will be passed on to customers in the form of higher rates (in 1988), and in consequence this cost will be passed on to customers in the form of higher rates (in 1988).

Optional Stock Dividend Programme

The Company's Optional Stock Dividend Programme initiated in October 1980 was terminated effective February 26, 1987, because it no longer offered any taxation benefits.

Beginning with the April 1987 dividend, dividends on common shares will be paid as cash dividends. Those who participated in the Programme were notified directly.

Current Cost Accounting

Again for 1986 the Company has chosen to present current cost information in line with recommendations adopted by the Canadian Institute of Chartered Accountants. This information is presented on pages 17 and 18 under the heading 'The Impact of Inflation', and it is hoped that it will be helpful and of interest to our shareholders.

Regulation

The Company appeared before the Public Utilities Commission (PUC) a number of times in 1986; for elimination of the cost of commodity clause included in rates, amendment to the averaging formula included in the fuel clause, for approval of the 1987 capital expenditures budget, for revisions to general regulations, and approval of the common stock split. In addition the Company worked in 1986 on the rate application filed in January 1987, and on a Long Term Plan which was filed with the PUC in April 1987.

Consolidated Balance Sheet

December 31

		1986	1985
Assets	**Fixed assets** (Note 1):		
	Land, buildings, plant and equipment	$115,751,009	$107,957,509
	Less: Accumulated depreciation	38,735,043	35,856,523
		77,015,966	72,100,986
	Current assets:		
	Cash and term deposits	5,600,664	4,640,967
	Accounts receivable	4,012,452	5,013,655
	Income taxes recoverable	1,050,098	-
	Materials and supplies, at cost	2,497,007	3,235,041
	Prepaid expenses	202,205	251,363
		13,362,426	13,141,026
	Deferred charges (Note 2)	231,939	434,482
		$90,610,331	$85,676,494
Shareholders' Equity and Liabilities	**Shareholders' equity** (Note 3):		
	Common shares	$ 4,092,886	$ 3,820,255
	Retained earnings	25,386,142	23,237,893
		29,479,028	27,058,148
	Preferred shares	8,600,000	8,700,000
		38,079,028	35,758,148
	Long-term debt (Note 4)	17,698,000	27,213,000
	Current liabilities:		
	Accounts payable and accrued liabilities	5,764,278	4,974,144
	Cost savings refundable to customers	899,475	1,722,768
	Dividends payable	793,121	765,857
	Deferred energy cost adjustment	5,731,394	1,562,398
	Income taxes payable	-	1,961,193
	Long-term debt due within one year	9,442,000	280,000
		22,630,268	11,266,360
	Deferred credits:		
	Deferred income taxes	6,539,085	6,217,735
	Contributions	5,663,950	5,221,251
		12,203,035	11,438,986
		$90,610,331	$85,676,494

See accompanying summary of accounting policies and notes.

Approved by the Board:

Director

Director

Consolidated Statement of Earnings

Year ended December 31

	1986	1985
Operating revenue	$53,993,649	$64,118,783
Operating expenses	37,037,476	47,277,482
Provision for depreciation	3,595,802	3,447,603
	40,633,278	50,725,085
Operating income	13,360,371	13,393,698
Other:		
Interest expense on long-term debt	3,808,834	3,849,844
Less:		
Interest revenue	586,977	108,408
Other revenue (expense)	51,171	(158,340)
	3,170,686	3,899,776
Earnings before income taxes	10,189,685	9,493,922
Provision for income taxes:		
Current	4,553,730	5,587,011
Deferred	321,350	(1,127,144)
	4,875,080	4,459,867
Net earnings	5,314,605	5,034,055
Preferred dividend requirements	932,355	1,009,905
Earnings applicable to common shares	$4,382,250	$4,024,150
Earnings per common share	$1.41	$1.31

See accompanying summary of accounting policies and notes.

Consolidated Statement of Retained Earnings

Year ended December 31

	1986	1985
Balance at beginning of year	$23,237,893	$21,291,455
Net earnings	5,314,605	5,034,055
	28,552,498	26,325,510
Dividends:		
Preferred shares—		
5%	30,000	30,000
Series A	107,625	118,125
Series B	352,230	419,280
Series C	442,500	442,500
Common shares	2,234,001	2,077,712
	3,166,356	3,087,617
Balance at end of year	$25,386,142	$23,237,893

See accompanying summary of accounting policies and notes.

Consolidated Statement of Changes in Financial Position

Year ended December 31

	1986	1985
Cash from operations:		
Net earnings	$ 5,314,605	$ 5,034,055
Charges to operations of depreciation, deferred income taxes and other items not involving an outlay of cash in current year	4,236,447	3,224,156
Changes in operating working capital—		
Increase in payables	1,124,546	5,512,578
Decrease in receivables and materials and supplies	1,668,001	1,619,918
	12,343,599	15,390,707
Less: Dividends paid	3,139,092	3,066,469
	9,204,507	12,324,238
Cash used in capital transactions:		
Expenditures for fixed assets (net)	8,846,461	4,585,110
Redemption of long-term debt	346,936	268,813
Redemption of preferred shares	100,000	100,000
Purchases of common shares	181,267	-
	9,474,664	4,953,923
Less:		
Contributions for extensions	778,378	474,810
Subscription for common shares	451,476	245,338
	8,244,810	4,233,775
Increase in cash and term deposits	$ 959,697	$ 8,090,463

See accompanying summary of accounting policies and notes.

Auditors' Report

To the Shareholders of
Maritime Electric Company, Limited:

We have examined the consolidated balance sheet of Maritime Electric Company, Limited as at December 31, 1986 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at December 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
February 20, 1987

Price Waterhouse
Chartered Accountants

Summary of Accounting Policies

Principles of consolidation:
These consolidated financial statements include the accounts of Maritime Electric Company, Limited and its wholly-owned subsidiary, Maritime Electric (P.E.I.) Limited.

Regulation:
The Company and its subsidiary are engaged in the purchase and production of electricity and its sale in Prince Edward Island and are regulated by the Public Utilities Commission of Prince Edward Island under The Electric Power and Telephone Act.

Fixed assets:
Additions are made to fixed assets and costs are capitalized in accordance with the regulations established by the Public Utilities Commission.

The cost of additions to fixed assets represents the cost of materials, related services, direct labour, interest during construction and other applicable indirect overheads.

Interest during construction is calculated on a monthly basis at a rate equal to the rate of return approved by the Public Utilities Commission.

Retirements from fixed assets are made to accumulated depreciation on the basis of original cost plus retirement expenses less salvage.

Depreciation is provided on a straight-line basis using a composite rate of 3.5 percent per annum. This rate is reviewed by the Public Utilities Commission from time to time and is estimated to amortize the cost of fixed assets, less salvage value, over their useful lives. Depreciation on the cost of contributed assets is charged to the contributions account.

Materials and supplies:
Materials and supplies are valued at average cost.

Contributions:
Contributions towards the cost of construction for service connections and those arising from the purchase of lines from the government are deferred. These amounts are written off over the life of the assets by an annual depreciation charge.

Revenue:
Revenue is recognized on billings rendered monthly to customers on a cyclical basis.

Deferred charges:
Storm damage costs
Special repair costs attributable to major storms are amortized over a three-year period commencing in the year of occurrence.

Financing costs
Costs relating to the issue of bonds and preferred shares are amortized over the estimated minimum life of the issue and those relating to the issue of common shares are amortized over 20 years.

Inquiry costs
Expenses relating to the 1982 Commission of Inquiry into the cost of electricity on Prince Edward Island are being amortized over a four-year period commencing in 1983.

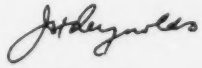
Deferred energy cost adjustment mechanism:
The Company's rates include an energy cost adjustment factor which permits the recovery of increased fuel costs by a supplementary charge to customers based on a moving average formula. Any over or under recovery in the current year is deferred.

Management's Report

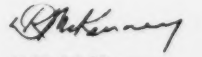
The accompanying consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada using procedures established by management and the framework of accounting policies outlined above. In management's opinion they fairly reflect, within reasonable limits of materiality, the Company's financial position, results of operations, and changes in financial position for the fiscal period ending December 31, 1986. Financial and other operating data contained elsewhere in this report are consistent with the consolidated financial statements.

Responsibility for the financial statements to shareholders rests with the Board of Directors. An Audit Committee of Directors is appointed by the Board to review the financial statements in detail with management and the external auditors, and to report to the Directors prior to their approval of the financial statements for publication.

The Company's external auditors, Price Waterhouse, are appointed by the shareholders to provide an independent review of management's discharge of their responsibilities as they relate to the financial statements prepared by management. The auditors' report is set out on previous page.



J.H. Reynolds
President and Chief Executive Officer



D.K. McKenney
Director of Financial Planning

Notes to Consolidated Financial Statements

December 31, 1986

1. Fixed assets

	1986	1985
Generating plants	$ 42,388,378	$ 42,311,405
Distribution systems	49,743,294	45,714,403
Transmission lines and substations	17,618,614	17,033,796
Other	2,312,771	2,270,163
Property under construction	3,687,952	627,742
	115,751,009	107,957,509
Accumulated depreciation	38,735,043	35,856,523
	$ 77,015,966	$ 72,100,986

2. Deferred charges

	1986	1985
Financing costs	$204,903	$270,989
Storm damage costs	14,157	99,096
Inquiry costs	12,879	64,397
	$231,939	$434,482

3. Shareholders' equity

(1) Authorized capital—

The authorized capital consists of:
(a) An unlimited number of common shares with no par value.
(b) An unlimited number of cumulative redeemable voting preferred shares, issuable in series with the quantities, rights, restrictions and conditions established by the Board of Directors at time of issue.
(c) 6,000 5% cumulative non-voting preferred shares redeemable at $100 per share.
(d) An unlimited number of 6% non-cumulative non-voting preferred shares subordinate to all other preferred shares and redeemable at $10 per share.

(2) Issued capital—

	1986 (shares)	1985 (shares)	1986 (amount)	1985 (amount)
Common shares (Note 3 (4) (a))	3,121,098	3,097,278	$4,092,886	$3,820,255
Voting preferred—				
Series A	50,000	55,000	$1,000,000	$1,000,000
Series B	40,000	40,000	4,000,000	4,000,000
Series C	150,000	150,000	3,000,000	3,000,000
5% non-voting preferred	6,000	6,000	600,000	600,000
	246,000	251,000	$8,600,000	$8,700,000

(3) Voting preferred shares series rights—

(a) Series A shares are entitled to a 10-1/2% dividend and are redeemable after January 31, 1984 at a premium of 6% which reduces to zero by 1992. In addition, five thousand shares are to be redeemed at par each year to meet sinking fund requirements.
(b) Series B shares are entitled to a dividend equal to 52% of the average interest rate on specified five-year guaranteed investment certificates plus 3.25 percentage points. This dividend rate, currently 8.554% (10.482% in 1985), is adjusted at five-year intervals. Commencing in 1987, the shareholders can require an annual redemption of up to 5% of the original issue at subscription value. In 1991 and every five years thereafter, either the Company or the shareholders may require redemption, in whole or in part, of the balance of the issue at subscription value.
(c) Series C shares are entitled to a 14-3/4% dividend and are redeemable after August 31, 1988 at a premium of 5% which reduces to zero by 1993. The shareholders have the right to require redemption, in whole or in part, on September 1, 1988 at subscription value. The Company is obligated to purchase for cancellation a limited number of shares each year if they are available at subscription value.

(4) Common shares

(a) Changes in common shares during the year were as follows:

Shares outstanding at beginning of year	3,097,278
Issued under share purchase plans (Note 3 (5) (a))	37,438
Purchased for cancellation (Note 3 (4) (c))	(13,618)
Shares outstanding at end of year	3,121,098

(b) On May 21, 1986 the shareholders approved a three-for-one stock split of the outstanding common shares effective June 5, 1986. All references in these financial statements to common share capital and to per share data for 1986 and 1985 have been restated to reflect the effect of the stock split.

(c) During 1986, the Corporation purchased for cancellation 13,618 common shares for $181,267 cash.

(5) Share option programmes

(a) The Company has a Customer Share Purchase Plan under which each customer may make a quarterly subscription for up to $4,000 worth of common shares of the Company at market value and an Employee Share Purchase Plan whereby each employee may subscribe up to 10% of his pay for the purchase of common shares of the Company at 90% of market value. Subscriptions of $451,476 (1985 - $245,338) received under these plans resulted in the issue of 37,438 shares during 1986 (1985 - 25,068). A balance of 85,811 shares remains from the original 1983 allotment of 180,000 shares for issuance under these plans.

(b) Through an optional stock dividend program, holders of common shares may elect to receive all or part of their dividends in the form of the 6% preferred shares. During 1986, 11,887 shares were issued and redeemed (1985 - 35,585). No shares were outstanding at the end of 1986 or 1985.

4. Long-term debt

	1986	1985
First mortgage sinking fund bonds—		
7-3/4% due 1987	$ 1,650,000	$ 1,813,000
18-3/4% due 1987	7,680,000	7,760,000
17-1/4% due 1990	5,760,000	5,820,000
8-3/4% due 1993	2,550,000	2,600,000
11% due 1996	4,000,000	4,000,000
10-3/8% due 1997	3,000,000	3,000,000
10-3/8% due 1998	2,500,000	2,500,000
	27,140,000	27,493,000
Less: Portion due within one year	9,442,000	280,000
	$17,698,000	$27,213,000

The first mortgage sinking fund bonds have a sinking fund requirement of 1% of the principal per annum. The annual requirement for sinking fund and for repayment of maturing debt for each of the next five years is: 1987 - $9,442,000; 1988 -$185,000; 1989 - $185,000; 1990 -$5,705,000; 1991 - $125,000.

Pursuant to the terms of the Deed of Trust and Mortgage, the Company has mortgaged or pledged either by way of a first and specific charge or by way of a floating charge all of its and its subsidiary's properties and assets as security for the first mortgage bonds.

5. Pensions

In 1981, the Company adopted a revised pension plan covering all of its regular employees. All the assets of the previous plan have been absorbed into the 1981 plan, which is fully funded for all entitlements arising since inception.

The Company makes payments, to retired employees, of supplements to pensions received under the previous plan. Under the 1981 plan, it makes payments to retiring employees to bring the pensions payable from the plan assets up to the levels specified under the 1981 plan. Such payments, on the direction of the Public Utilities Commission, are expensed as paid.

Total pension costs in 1986 amounted to $663,122 (1985 - $619,879).

The Impact of Inflation

Inflation is generally perceived as a condition in which the prices of commodities and services increase. However, inflation is not really an increase in costs, but a decrease in the value of money. This makes it difficult to make comparisons from year to year, because the purchasing power of the unit of measurement used—the dollar—becomes smaller each year.

The shrinking purchasing power of the dollar can have significant effects on the operations and financial affairs of a company, particularly one with a heavy investment in fixed assets of long life.

The historical cost convention, which was used in the preparation of the preceding financial statements of this report, is used in most of the world for financial reporting, taxation, and regulatory purposes. It reports asset values in the prices which prevailed at the time of their acquisition, which is a simple and consistent approach; but it does not reflect the impact of inflation.

Maritime Electric must make large investments in fixed assets which last an average of almost 30 years. In an inflationary environment, depreciation set at a percentage of original cost prices soon begins to fall short of the amount required for replacement, because annual depreciation is being taken in money which is worth less than that which was used to purchase the assets. At the end of an asset's life, the money thus set aside to amortize the asset's cost is not enough to buy a replacement.

Because of its concern over this, the Company has for several years been telling its shareholders and customers the approximate present day cost of its equipment and what the depreciation expense would be, based on that cost. More recently, the Canadian Institute of Chartered Accountants (CICA) asked major businesses to include as supplementary information in annual reports some statements to show what their results would be if there were some accounting for inflation. Several techniques are accepted for this purpose.

The statements which follow use the CICA technique which the Company considers most appropriate to its circumstances. This model focuses on preserving the ability of the Company to continue providing the same level of services, and assumes that the cost of the additional depreciation and changes in other operating costs are shared proportionately between the providers of equity funds and the providers of loan funds.

Now that the rate of inflation has declined, there is a tendency to be less concerned about its effects. Public utilities cannot afford such complacency; their capital-intensive nature requires them to plan carefully for plant replacements. Even the present comparatively low rates of inflation have substantial effects over long periods of time. And even if no further inflation occurred, the depreciation on past cost increases would continue to affect current cost expenses until present assets are retired.

The reporting of current cost information is still in its formative stages. It depends on a variety of adjustments to historical costs, which must be based on assumptions as to how changing prices have affected the Company's affairs. The resulting statements, which should not be regarded as replacements for the historical cost financial statements but as supplements to them, will be unfamiliar and difficult for many to interpret. Nevertheless, the Company believes that current cost information provides a valuable additional insight into the Company's finances.

There are three significant differences between the results shown by the current cost and historical cost bases in the Statement of Earnings and Common Shareholders' Investment:

1. Depreciation increased by $5,151,000 to reflect the full cost of funding the replacement of existing fixed assets. This is partially offset by an increase in the value of the contributions made by customers toward the cost of these assets, leaving a net increase in cost of $4,606,000.
2. A financing adjustment of $1,203,000 is shown to represent the benefit derived by the Company from the decline in real value of long-term debts to bond holders, preferred shareholders and other creditors.
3. An amount of $4,850,000, "Increase in provision for maintenance of operating capability", partially offset by the financing adjustment, shows the extra equity capital required to finance the increase in the current cost of the Company's assets.

Significant differences between current cost and historical cost values in the balance sheet are as follows:

1. $156,947,000 in the cost of fixed assets and $95,000 in the cost of materials and supplies to reflect changes in the prices of these items since their acquisition.
2. $89,376,000 in accumulated depreciation, this being the extra depreciation which would have been charged to operations over the years had fixed assets been valued at their current cost.
3. $64,128,000 in common shareholders' investment reflecting the increase in value over the years of the assets purchased with shareholders' funds.
4. $3,538,000 in contributions, restating the net value of customers' contributions toward fixed asset acquisitions in terms of their original purchasing power.

Summary

As has been mentioned previously, these current cost figures are an approximation and care should be used in applying them in other contexts. However, at least the following points may be worthy of note.

The current cost of replacing existing assets with new ones of equivalent capability is almost 2½ times original cost.

After deducting accumulated depreciation, the net value of fixed assets on a current cost basis is almost double net value on a historical basis. Most of this difference is offset by the increase in Common Shareholders' Equity required to state the value of the funds invested by them on a current basis. However, unless earnings increase significantly, the higher operating expenses of the current cost method will erode the real value of the shareholders' investment over the years.

On a current cost basis, depreciation expense must be increased by over $5 million for 1986. The benefit from the reduced real value of obligations to creditors and preferred shareholders, which tends to be anticipated by the market and to be offset through higher interest rates, amounts to $1.2 million. As a result, earnings for common shareholders on a current cost basis are 95 cents per share lower than a historical basis.

Balance Sheet

	December 31, 1986 (in thousands of dollars)	
	Historical Cost	Current Cost
Assets:		
Fixed Assets	$115,751	$272,698
Less: Accumulated depreciation	38,735	128,111
	77,016	144,587
Current Assets:		
Cash and term deposits	5,601	5,601
Accounts receivable	4,012	4,012
Materials & supplies	2,497	2,592
Other	1,252	1,252
	13,362	13,457
Deferred charges	232	232
	$90,610	$158,276
Shareholders' Investment and Liabilities:		
Common shareholders' investment	29,479	93,607
Preferred shares and long-term debt	35,740	35,740
Current liabilities	13,188	13,188
Deferred credits		
Deferred income taxes	6,539	6,539
Contributions	5,664	9,202
	12,203	15,741
	$90,610	$158,276

Statement of earnings and common shareholders' investment

(1985 current cost data expressed in dollars of 1986 purchasing power)

	1986 (in thousands of dollars)		1985 (in thousands of dollars)	
	Historical Cost	Current Cost	Historical Cost	Current Cost
Revenues	$53,994	$53,994	$64,119	$65,978
Operating expenses	37,038	36,579	47,277	48,647
Depreciation	3,596	8,202	3,448	8,012
Interest and preferred dividends	4,103	4,103	4,910	5,052
Financing adjustment	-	(1,203)	-	(1,361)
	$44,737	$47,681	$55,635	$60,350
Earnings before tax	9,257	6,313	8,484	5,628
Income tax	4,875	4,875	4,460	4,589
Earnings for common shareholders	4,382	1,438	4,024	1,039
Common shareholders' investment				
Start of year	27,058	90,483	24,866	89,564
Invested in year	273	273	245	252
Dividends in year	(2,234)	(2,234)	(2,077)	(2,137)
	29,479	89,960	27,058	88,718
Increase in provision for maintenance of operating capability	-	4,850	-	4,472
Financing adjustment	-	(1,203)	-	(1,361)
End of year	$29,479	$93,607	$27,058	$91,829

Statement of Income ($'000)	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977
Operating Revenue	53,994	64,119	61,848	56,965	53,743	45,651	36,261	31,809	26,749	23,376
Operating Expenses	37,037	47,277	45,648	41,360	38,460	35,614	27,512	24,182	19,028	17,392
Depreciation	3,596	3,448	3,310	2,979	2,832	2,256	1,998	1,789	1,866	1,744
Finance Charges	3,171	3,900	3,963	4,104	4,915	2,752	1,943	1,552	1,616	1,351
Provision for Income Taxes	4,875	4,460	4,092	3,990	3,608	2,474	2,267	1,942	1,901	1,255
Net Earnings	5,315	5,034	4,835	4,532	3,928	2,555	2,541	2,605(a)	2,338	1,634
Balance Sheet Data ($'000)										
Fixed Assets	115,751	107,958	103,923	99,473	95,453	83,268	70,140	64,830	59,518	55,656
Accumulated Depreciation	38,735	35,857	32,651	29,723	27,000	24,199	22,131	20,316	18,647	16,825
Capitalization:										
Total Debt	27,140	27,493	31,315	31,531	32,642	30,981	23,829	21,880	19,358	18,654
Shareholders' Equity										
Preferred	8,600	8,700	8,800	8,900	9,000	6,100	2,200	2,300	2,400	2,500
Common	29,479	27,058	24,866	22,814	21,053	17,750	16,954	15,675	14,145	12,677
Share Data(g)										
Earnings per Common Share ($)	1.41	1.31	1.25	1.15	1.16	.77	.87	.89(a)	.78	.52
Dividends per Common Share ($)	.72	.6733	.63	.60	.57	.47	.39	.32	.24	.22(b)
Number of Common Shares Outstanding at Year End (000's)	3,121	3,096	3,072	3,042	3,042	2,700	2,700	2,700	2,700	2,700
Book Value per Common Share ($)	9.45	8.74	8.09	7.50	6.92	6.57	6.28	5.81	5.24	4.70
Market Value per Common Share (c)										
High ($)	14	10⅞	9⅞	8¼	7	5⅛	5⅛	5⅛	5	3⅜
Low ($)	10¼	9⅛	7⅞	6⅛	4¼	4⅛	3⅞	3⅜	3¼	2¼
Market Volume— Shares Traded (d)(000's)	348.7	440.1	179.1	176.7	302.1	112.2	446.7	228.3	200.1	159.3
Financial Ratios										
Capital Structure (percent)										
Total Debt	42	43	48	50	52	57	55	55	54	55
Preferred	13	14	14	14	14	11	5	6	7	7
Common	45	43	38	36	34	32	40	39	39	38
Coverage (times)										
Total Debt Interest	3.6	3.3	3.2	3.0	2.5	2.7	3.2	3.4	3.4	2.9
Total Debt Interest and Preferred Dividends	2.4	2.2	2.2	2.1	2.0	2.0	2.7	2.8	2.8	2.3
Return on Average Common Equity (percent)	15.5	15.5	16.0	16.0	16.4	12.1	14.3	16.1	15.8	11.4
Regulatory Data										
Rate Base ($'000)	50,524(e)(f)	53,698(e)(f)	55,015(e)	51,491(e)	49,942(e)	49,711	47,204	40,147	39,508	37,342
Return on Rate Base (percent)										
Allowed	11.13-11.30(e)	11.13-11.30(e)	11.60-11.75(e)	11.60-11.75(e)	10.75-12.25(e)	10.75-12.25	9.25-10.0	9.25-10.0	9.25-10.0	9.25-10.0
Earned	11.29(e)	11.23(e)	10.49(e)	10.7(e)	11.59(e)	9.34	9.49	9.70	9.96	8.02
Operating Data										
Sources of Energy (million kWh)										
Purchased	456.6	433.5	413.2	385.6	392.9	467.8	388.9	361.3	268.9	72.5
Company Owned Generation	151.0	145.5	147.0	145.2	117.6	46.6	125.7	151.0	209.6	379.7
Total	607.6	579.0	560.2	530.8	510.5	514.4	514.6	512.3	478.5	452.2
Sales (million kWh)										
Residential	243.0	230.1	222.1	212.4	200.3	204.8	202.4	198.4	188.2	193.6
General Service & Other	295.6	285.0	271.7	258.0	253.2	255.9	257.4	257.8	239.6	214.7
Total	538.6	515.1	493.8	470.4	453.5	460.7	459.8	456.2	427.8	408.3
Customers (000's)										
Residential	38.5	37.7	36.8	36.0	34.9	34.3	34.3	33.6	32.6	31.8
General Service & Other	7.7	7.4	7.3	7.1	7.4	7.7	7.8	7.5	6.9	6.1
Total	46.2	45.1	44.1	43.1	42.3	42.0	42.1	41.1	39.5	37.9
Number of Employees	203	201	195	193	196	196	200	204	198	195

Notes:

(a) Includes extraordinary item of $261,160—gain on sale of office building

(b) Includes Dividend out of Tax Paid Undistributed Surplus on Hand

(c) Price quoted on the Toronto Stock Exchange

(d) Combined volume of shares traded on the Toronto and Montreal Stock Exchanges

(e) Maritime Electric (Nonconsolidated)

(f) Average 1985-1986, Year-End 1977-1984

(g) Share data reflects 3 for 1 Split (June 5, 1986)

Corporate Directory

Board of Directors
A.D. Cameron
Senior Consultant, Monenco Consultants Limited, Montreal

K.V. Cox
Chairman of the Board and Chief Executive Officer, The New Brunswick Telephone Company Limited, Saint John
Chairman of the Board, Bruncor Inc.

B.L. de la Giroday*
Internal Auditor, B.C. Hydro

A.S. Gordon*
Consultant, Merrill Lynch Canada Inc., Montreal

A.H. Holman, O.C.
Retired, Charlottetown

A.W. Howard
Director, TransAlta Utilities Corporation, Calgary

W.G. Lea, Q.C.
Partner, Campbell, Lea, Michael, McConnell & Pigot, Charlottetown

G.A. McMurdo*
Farmer, Kensington

M.A. Pavey
Consultant, Beaconsfield

J.H. Reynolds
President and Chief Executive Officer, Maritime Electric Company Limited, Charlottetown

D.A. Scales
President, Island Fertilizers Ltd., Charlottetown

R.W. Smith*
Chairman of the Board, Maritime Electric Company, Limited, Charlottetown

*Members of Audit Committee

Officers
R.W. Smith
Chairman of the Board

J.H. Reynolds
President and Chief Executive Officer

P.H. Newcombe
General Manager

J.L. Boomhower
Director of Facilities Planning

D.K. McKenney
Director of Financial Planning & Secretary-Treasurer

M.A. Pavey
Director of Strategic Planning

H.B. Curtis
Assistant Secretary-Treasurer

Head Office
Confederation Court Mall,
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Telex: 014-44115

Act of Incorporation
Canada Business Corporations Act

Auditors
Price Waterhouse, Chartered Accountants

Banker
Royal Bank of Canada

Counsel
Campbell, Lea, Michael, McConnell & Pigot, Charlottetown
Byers Casgrain, Montreal

Exchange Listings—Common Stock
Toronto Stock Exchange
Montreal Exchange
Ticker symbol—MEC

Transfer Agent and Registrar
Montreal Trust Company
Charlottetown, Halifax, Montreal, Toronto, Winnipeg